



NATURAL RESOURCES DEFENSE COUNCIL

October 6, 2006

Robert Howatt, Delaware Public Service Commission  
Karen J. Nickerson, Delaware Public Service Commission  
861 Silver Lake Blvd.  
Cannon Building, Suite 100  
Dover, DE 19904

Re: Comments on Draft RFP—Docket No. 06-241, In the Matter of Integrated Resource Planning for the Provision of Standard Offer Service by Delaware Power and Light

Dear Ms. Nickerson and Mr. Howatt:

The Natural Resources Defense Council (NRDC), respectfully files this comment on the redline RFP in this proceeding. NRDC is a national environmental advocacy organization with over 1.2 million members and on-line activists nationwide, including 3,513 members and activists from the state of Delaware. NRDC's number one institutional priority is fighting global warming. Promoting energy efficiency and renewable energy is a crucial means to this end.

NRDC appreciates the work done by Delmarva Power and by the Independent Consultant in the proposal and redline respectively and is pleased to see that the draft RFP addresses environmental impacts associated with submitted projects. We are concerned, however, that renewable power projects may still find themselves disadvantaged by the redline RFP, contrary to the objectives of the Delaware Legislature and the plain language of the relevant Delaware statute.

Section 1007(d) plainly states that Delmarva is directed to:

[S]et forth proposed selection criteria based on the cost-effectiveness of the project in producing energy price stability, reductions in environmental impact, benefits of adopting new and emerging technology, siting feasibility and terms and conditions concerning the sale of energy output from such facilities.

26 Del. C. § 1007(d).

Significantly, there is no mention of price in this list of criteria. Yet currently 38% of the ultimate decision will be based on lowest price. The Legislature has deemed the cost-

effectiveness of each of the five listed criteria to be of primary importance, so even if price was completely eliminated from the analysis, issues related to price would be considered during the RFP process. Furthermore, the direct consideration of price would happen once the process reaches the IRP stage. The Delaware Legislature's primary goal is to secure price stability, and focusing so heavily on lowest price is short-sighted and against legislative intent.

We also believe that Delaware's commitment the Regional Greenhouse Gas Initiative (RGGI) is important to the handling of the RFP. Enhanced deployment of renewable energy in Delaware will be crucial to meeting Delaware's commitments under RGGI at least cost. The RFP, consistent with the statutory mandate, should thus be crafted to encourage, rather than discourage, renewable energy sources from participating.

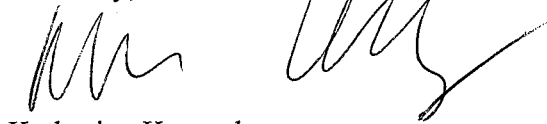
Given the legislature's emphasis on cost-effectiveness, it would be unwise and against sound public policy to ignore the costs of compliance with the RGGI carbon cap in the RFP decision-making process. Therefore, the RFP should identify and take into account what the cost of power will be after factoring in the added cost for allowances. Allowance costs can be factored for a range of prices starting at \$2 and moving up to \$10 or \$15, and the carbon emissions associated with that power can then be factored in, allowing the calculation of the additional cost. We also note that any additional fossil power that is built in Delaware will put additional price pressure on the value of allowances and may potentially have the impact of causing the State to exceed its cap and be a net buyer of allowances in the market, putting this additional expense on its consumers.

Finally, we are concerned about the provision that allows future carbon taxes to be passed through to the ratepayers. This provision frustrates the legislative goals of securing price stability and reducing environmental impact and weakens the bids of renewable power sources who offer future ratepayers security in never subjecting them to such taxes.

Therefore, we ask that the Public Service Commission finalize the RFP in such a way as to lessen the weighting of lowest price in favor of the criteria expressly stated by the Legislature. We also ask that the RFP proceed in a way that is consistent with and supports the State of Delaware's commitments to reduce power plant carbon levels through the RGGI cap and trade system. And finally, we ask that any provision allowing for carbon taxes to be passed through be stricken and that no other protections for CO2 emitters be included in the RFP evaluations.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to be 'Katherine Kennedy', written over a horizontal line.

Katherine Kennedy  
Senior Attorney